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MEMORANDUM FOR THE CHAIRMAN OF THE PRESIDENT'S FOREIGN
INTELLIGENCE ADVISORY BOARD

Subject: A Report on Economic Intelligence

The report on Economic Intelligence prepared by Mr. Leo Cherne, of the President's Foreign Intelligence Advisory Board, submitted to the President in December 1973, provides a useful review of recent developments in this area as well as valuable guidance for the future. I share Mr. Cherne's view that the Board's 1971 report undoubtedly was instrumental in stimulating the general improvement in collection, reporting and analysis which we have observed over the past two years. Of equal importance, I have noticed that over this period economic intelligence has become markedly more timely and more relevant to the foreign economic issues confronting our policy-makers and negotiators. Particularly noteworthy in this respect has been the growing improvement in economic intelligence support to our negotiations in the areas of international monetary and trade reform, East-West trade, and more recently on international energy policies. I and other members of the Council on Economic Policy have noticed that not only is the alert reporting on major new developments abroad much better than it was some years ago, but that we are now gaining more helpful insights into the negotiating positions of foreign governments and the underlying considerations which influence these positions. There also seems to be an enhanced awareness in the intelligence community of the importance of identifying the key economic issues of the day and the need for timely reporting on developments related to these issues. This is not only true of analytic reporting but reporting from the clandestine services, from our Embassies abroad and from NSA.

PFIAB/NSC review completed.

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While the gains in economic intelligence have been substantial, the needs for such intelligence have also been expanding as international economic developments and policies have assumed growing importance on our scale of national priorities. Consequently, as Mr. Cherne's report indicates, "there still remains a significant gap between what is needed and what is being provided."

It is not possible to bridge this gap by the highly elaborate, detailed and structured reporting requirements which have characterized intelligence in the past. Given the dynamic nature of the world economy it is essential that the intelligence community develop a faster reaction time and that it maintain maximum flexibility to ensure that intelligence which is relevant to the immediate needs of policy officials is provided in time to meet their requirements. This is not to minimize the importance of developing a basic understanding of economic conditions around the world through collection, research and analysis but I would emphasize that in situations we face today the timeliness of intelligence reporting and its direct relevance to specific policy issues is of critical importance.

If we are to achieve these objectives, it is essential that intelligence producers and consumers be in frequent contact so that the intelligence producers are aware of those upcoming decisions, events and negotiations which require a particular focus in intelligence reporting and so that the consumers can gain a better appreciation of how best to enunciate their needs and to evaluate their prospects for intelligence assistance. This requires that intelligence representatives be brought more into the decision-making process and into preparatory sessions for negotiations.

In our experience, it is also important that cumbersome committee structures be minimized and that we seek to carry out our contacts through informal networks of those professionals most involved with the issues at hand.

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In many ways progress is already being made in this direction. I would simply emphasize the need to accelerate the process.

In addition to these general observations, I have outlined below a number of specific comments about the report:

A. Aid to United States Business Interests

Regarding particular business opportunities, it seems clear that the principal reporting responsibility falls on our embassies abroad. Cost-effectiveness considerations would argue that other intelligence resources, e.g., the clandestine services and NSA, normally should not be burdened with this responsibility. There are occasions, however, when a particular business opportunity is of sufficient importance or when information of major significance to our businessmen becomes available through these sources as a by-product of other activities that these sources should contribute to commercial reporting. In such cases these reports could appropriately be made available in "sanitized" form through the Department of Commerce to U.S. businessmen.

B. United States Commercial Policy

In those instances where major U.S. commercial policy interests are concerned, e.g., computer sales to adversary nations, prospective large grain sales, foreign investment, developing material scarcities, the policymakers should work closely with intelligence to ensure that they obtain the best available information from all sources.

C. Intelligence on Multi-National Corporations (MNC's)

It is important that we have the best possible intelligence appreciation of the nature and impact of MNC activities abroad. There is a question, however, as to the appropriateness of our conducting certain kinds of intelligence investigations against U.S.-based MNCs. Criteria governing such action require careful scrutiny.

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With regard to the MNCs, one area which requires more attention is the use of these corporations as well as our major banking institutions abroad as sources of information on major foreign economic developments.

D. Economic Warfare

I would generally share Mr. Cherne's view that more "alert" and analytic reporting regarding materials in short supply and the policies of nations abroad relating to these short supply items is desirable. Recently we have observed some improvement in this area. Intelligence support has been elicited, for example, in connection with prospective sales from our stockpiles.

E. Friendly versus Adversary Nations

There is no question that our needs for economic information about certain foreign countries which we have traditionally regarded as friendly is greater today than it has been in the past. Mr. Cherne very properly highlighted the importance of selecting with some care the manner in which we acquire such information.

F. The Role of Economic Intelligence

I would agree that the policymakers require a more timely system of "alert" reporting on new developments abroad relating to economic policy decisions and negotiations. Since most member agencies of the CEP concerned with international economic affairs (e.g., Commerce, Council of Economic Advisers, the Office of the President's Trade Representative, the CIEP, etc.) as well as the Federal Energy Office are not members of the intelligence community and often in the past have not had adequate access to economic intelligence I have arranged for my Office of National Security to brief these members on a daily basis, drawing on all sources of information to ensure that they are more aware of those major developments around the world which have a bearing on our international economic

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interests. We have had excellent support and cooperation from the Intelligence Community in performing this function.

The economic intelligence community also has been improving its direct service to the CEP members and over the last two years these policy officials in turn have kept intelligence better advised of their needs. My Office of National Security has supplemented these efforts by facilitating support to the CEP members through materials drawn from both intelligence collectors and analysts. A much closer relationship needs to be developed, however, between policy officials and intelligence.

G. Treasury Reporting

Treasury attache reporting is a useful supplement to analyses provided by other embassy officers abroad. We hope to strengthen this service by adding additional Treasury attaches at key foreign posts in the near future.

In order to enhance the availability of analytic reports to the policymaking community, Treasury has recently instituted a new series of reports on international economic, financial and monetary developments which are distributed to key government officials with responsibilities in these areas. We are also increasing our participation in the intelligence production process.

H. Requirements Advisory Board (RAB)

Regarding Mr. Cherne's suggestions that the RAB play a major role in the interface between intelligence and the policymakers, I would only suggest that the RAB can play this role most effectively by operating more as a network of key officials than as a formal advisory body with regular meetings. Over the past year members of the RAB with policymaking and negotiating responsibilities have consulted more frequently on policy and negotiating issues and intelligence has increasingly been brought into this process.

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I. KIOS

The new approach to requirements represented by the Key Intelligence Questions (KIOS) is an important step forward in achieving flexibility and responsiveness in the requirement system and represents a healthy move away from the highly structured and detailed requirements of the past. We in Treasury as well as a number of CEP members participated in the preparation of the first KIOS and are hopeful that they will result in improved analytic and field reporting.

In summary, Mr. Cherne's report should provide useful guidance for the economic intelligence community and for those policy-making officials who benefit from their product.



George P. Shultz

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Directorate of Science & Technology

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